

**PROPOSED**  
**Comprehensive Financial**  
**Management Policies for City of Lynn**

June 2019

**Edward J. Collins, Jr. Center for Public Management**

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**McCORMACK GRADUATE SCHOOL OF POLICY AND GLOBAL STUDIES**

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## INTRODUCTION

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In order to ensure the financial health of the City of Lynn, provide the public with confidence that City officials respect their responsibility for fiscal stewardship, and demonstrate to bond rating agencies that the City has prepared for its future, the financial policies outlined below shall guide the City.

This document is intended to establish a set of financial management policies and not the procedures that identify the specific methods and actions necessary to carry out these policies. Policies are the terms and conditions which guide and direct the City in making financial management decisions. They are not hard and fast rules so that they may recognize extraordinary situations. Financial management policies are made to support strategies. In many instances, administrative procedures are or will be developed as tools to implement these policies.

### **Objectives:**

***The objectives of the Financial Management Policies are as follows:***

- 1. To guide the Mayor, City Council, and management staff in evaluating and implementing decisions that have significant impact on the City.*
- 2. To set forth planning and operating principles which require that the cost of government be clearly identified and that financial risk be minimized.*
- 3. To employ balanced and fair fee and user revenue policies that provide funding for required and needed programs and projects.*
- 4. To regularly evaluate the City's financial capacity to meet present and future needs.*
- 5. To promote credible and sound financial management by providing accurate and timely information on the City's financial condition.*
- 6. To ensure that current and future capital needs are addressed in a comprehensive and financially-sound manner.*
- 7. To provide financial resources sufficient to meet the City's obligations on all municipal debt and other long-term obligations.*
- 8. To maintain internal controls that ensure the legal use of financial resources.*
- 9. To promote cooperation and coordination with other governments and the private sector in the financing and delivery of services.*

## **A. GENERAL BUDGET POLICIES**

### **A-1 Balanced Budget**

#### **Background:**

All Massachusetts municipalities are required by state law to prepare balanced annual budgets.

The Government Finance Officers Association (GFOA) notes a true structurally-balanced budget is one that supports financial sustainability for multiple years into the future.

#### **Policy:**

The City shall adopt balanced budgets in which current revenues (non-one-time) equal or exceed current expenditures. Expenditures shall be realistically budgeted and estimated revenues shall be conservatively budgeted to allow for unanticipated events. The City shall present said estimates and assumptions behind revenue estimates along with the balanced budget.

The City will not use budgetary procedures that balance the budget at the expense of future years, such as postponing or deferring payment of expenses already incurred or accruing future year revenues.

The City shall maintain reserves for emergencies and shall maintain sufficient liquidity to pay bills on time without revenue anticipation borrowing.

#### **References:**

*M.G.L. c.44, §31 Liabilities in Excess of Appropriations*

*Achieving a Structurally Balanced Budget*, Government Finance Officers Association Best Practice, February 2012

#### **Adopted by:**

#### **Date Adopted:**

### **A-2 Annual Reserve Account**

#### **Background**

A municipality cannot spend money in the absence of an appropriation. City Councils can transfer available funds at any regularly scheduled public meeting and in accordance with any individual ordinance.

In addition, on March 27, 2018, the Commonwealth approved Chapter 58 of the Acts of 2018. Among other items, the Act requires that the City establish a special reserve fund for extraordinary and unforeseen expenditures called the **Supplemental Reserve Fund to Ensure Fiscal Stability**. The Act prescribes amounts to be appropriated and the process for approving transfers. The requirements of the Supplemental Reserve Fund shall remain in effect as long as the notes authorized under this Act remain outstanding.

**Policy:**

The City shall annually recommend an appropriation to an annual Reserve Account for the purpose of supporting any emergency and unforeseen issues that may occur during the current fiscal year. In addition, the City shall monitor and comply with the requirements of Chapter 58 of the Acts of 2018.

Reserve account transfers should be used only for unexpected contingencies for which financial need can be justified. In addition, the need for the transfer shall be communicated to the City Council in a timely manner. The Chief Financial Officer shall review the annual Reserve Account appropriation amount at least every five years to determine whether an increase or decrease in appropriation should be recommended.

**References:**

*M.G.L. c.40, §5A Reserve Funds for Extraordinary Expenditures*

Chapter 58, Acts of 2018 - An Act Relative to the Financial Condition of the City of Lynn

**Adopted by:****Date Adopted:****A-3 Submission of Budget and Budget Message****Background:**

Two important principles of public budgeting are clarity and publicity. The GFOA considers the preparation of the annual budget document of great importance in providing detailed financial information and also explaining the key issues that face the community. It is also important to distribute this information to the staff, elected and appointed officials, and the general public in order to give them a greater understanding of the operations, financing, and key issues confronting the community.

**Policy:**

The Mayor, with the assistance of the Chief Financial Officer, is responsible for the preparation of the annual operating budget and capital budget. The Chief Financial Officer shall submit a preliminary budget to the Mayor by February 1 and the Mayor shall submit the recommended budget to the City Council by mid-May.

In accordance with the City Charter, *“Within the period prescribed by state statute, the mayor shall submit to the city council a proposed budget for the ensuing fiscal year which shall provide a complete financial plan of all city funds and activities for the ensuing fiscal year, an accompanying budget message, and supporting documents.*

*The mayor’s message shall explain the budget for all city agencies both in fiscal terms and in terms of work programs. It shall outline the proposed financial policies of the city for the ensuing fiscal year, describe the important features of the budget, indicate any major changes from the current fiscal year in financial policies, expenditures, and revenues, together with reasons for such changes, summarize the city’s debt position, and include such other material as the mayor deems desirable or the city council may reasonably require.”*

The City shall work toward the development of a budget document that meets the standards of an industry recognized comprehensive budget document.

**References:**

*Lynn City Charter Article 5 Financial Procedures, Section 5-1 Submission of Budget, Budget Message*

*Lynn City Charter Article 5 Financial Procedures, Section 5-2 Action on the Budget*

*Lynn City Charter Article 5 Financial Procedures, Section 5-3 Supplementary Budgets, Other Appropriations*

*M.G.L. c.44, §32 Submission of City Budget to City Council*

**Adopted by:**

**Date Adopted:**

**A-4 Revenue and Expenditure Forecast**

**Background:**

A critical step in maintaining a sound financial plan is the preparation of a multi-year revenue/expenditure forecast. Long-term financial planning, including revenue and expenditure assumptions, is one of the local government financial practices that credit rating agencies evaluate when assessing municipalities for credit quality. The Massachusetts Division of Local Services (DLS) states that a financial forecast, or multi-year revenue and expenditure forecast, allows a municipality to evaluate the impact of various government decisions over time.

A forecast will provide decision-makers with an indication of the long-term fiscal impact of current policies and budget decisions and will allow the Mayor and staff to test various “what-if” scenarios and examine the fiscal impact on future budgets.

**Policy:**

Each year the Chief Financial Officer, in consultation with the Mayor and department heads, shall prepare and maintain a five-year Financial Forecast based on current service levels and current funding sources and including the five-year Capital Improvement Program.

The forecast shall be used as a budget tool to enable City officials to review operating needs, identify fiscal challenges and opportunities, and develop long-term budgeting policies as part of an overall strategic plan. The forecast shall be designed to provide an outlook on the implications of changes in revenues and expenditures and allow for analyzing multiple scenarios. The forecast will provide insight into whether the current mix and level of resources are likely to continue to be sufficient to cover current service levels and capital projects.

The Chief Financial Officer, in cooperation with the mayor and other City departments, will review fiscal assumptions every year when the forecast is updated and will use information that is timely and accurate in preparation of the forecast. The preliminary forecast and the associated assumptions shall be made available to the Mayor and City Council with the submission of the preliminary budget.

**References:**



*Revenue and Expenditure Forecasting*, MA DOR Division of Local Services Best Practice.  
*Financial Forecasting in the Budget Preparation Process*, Government Finance Officers Association Best Practice, February 2014.

**Adopted by:**

**Date Adopted:**

### **A-5 Position Control/Vacancies**

**Background:**

A large segment of a City's budget is its personnel costs. Failure to accurately monitor the personnel budget can lead to errors in budgeting, over or under-staffing, incorrect grading, and other personnel costs.

**Policy:**

The City shall maintain a personnel system that accurately tracks authorized, filled, and unfilled positions as well as their funding source. Annual budgets shall be prepared that account for all the costs necessary to cover positions that the City intends to have during that budget period.

**Adopted by:**

**Date Adopted:**

### **A-6 Personnel Policies and Labor Contracts**

**Background:**

For the purposes of these policies, the following definitions shall apply:

- Personnel Policies are the documents that represent the conditions of employment, wages, benefits, hiring, promotions, classifications, and many other categories of employer/employee relations. Collective bargaining agreements, as well as state laws and regulations, take precedence over the terms included in the Personnel Policy.
- Classification Plans are the schedules that identify employees by job category, job title, and union/non-union status on a typical grade structure.
- Pay Plans are the wage schedules that specify pay rates, typically on an annual step or merit system, for each union and non-union position.
- Memorandums of Agreement (MOAs) are the documents that represent agreement between a municipality and the various labor unions. They are created when a municipality and the respective union have reached agreement for a contract period about wages and working conditions.
- Collective Bargaining Agreements (CBAs) are the documents that incorporate the negotiated changes and represent the total agreement that exists between a municipality and a union.

- Side Letters are documents that represent a short-term agreement between a municipality and a union.

**Policy:**

Pay plans and pay rates shall be monitored to ensure compliance with labor contracts, personnel policies, and accuracy. Contract proposals and agreements will be fully costed out to understand the short and long-term impact on City finances. In order to foster transparency in the provision of employment agreements and benefits, the City will prepare and maintain documents that are publicly available including personnel policies, pay plans, classification plans, memorandums of agreement, collective bargaining agreements, and side letters.

***Adopted by:***

***Date Adopted:***

## **B. ENTERPRISE FUND POLICIES**

### **B-1 Self Sufficiency and Rates**

#### **Background:**

Enterprise Funds provide a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods and services. Under enterprise accounting, the revenues and expenditures of the service are segregated into a separate fund with its own financial statements, rather than commingled with revenues and expenditures of all other government activities. Enterprise accounting allows a community to demonstrate to the public the total cost of providing a service.

The City has not adopted the state statute governing enterprise fund accounting.

#### **Policy:**

Water and sewer services are provided in Lynn by a separate political jurisdiction, the Lynn Water and Sewer Commission. This Commission maintains its own financial accounting and operations and is responsible for rate setting and self-sufficiency. It does operate a Marina Fund as a business-type operation and will continue to provide a separate accounting for the operations of the seaport landing marina.

#### **References:**

*MGL, Chap 44, Sec 53F1/2*

*Enterprise Funds, MA DOR Division of Local Services Best Practice*

#### **Adopted by:**

#### **Date adopted:**

## **C. RESERVE FUNDS AND FREE CASH POLICIES**

### **C.1 Special Reserve Funds**

#### **Background:**

Formal written policies that establish guidelines for funding and maintaining reserves can help a community sustain operations during difficult economic periods. Reserves can be used to finance unforeseen or emergency needs, to hold money for specific future purposes, or in limited instances, to serve as a revenue source for the annual budget. Reserve balances and policies can also positively impact a community's credit rating and as a consequence, the long-term cost to fund major projects. The discussion of reserves, and the attention of credit rating agencies, is generally focused on free cash, stabilization funds, and, sometimes, overlay surplus.

The Commonwealth has authorized by state statute numerous special reserve funds to provide for potential liabilities.

#### **Policy:**

The City of Lynn shall maintain the following reserve funds at a level sufficient to assure that the City can withstand unanticipated expenditures without stress on the annual budget:

- Unemployment Compensation Fund
- Workers' Compensation Claims Reserve
- Compensated Absences Reserve Fund

#### **References:**

*M.G.L. c. 40 §5E Unemployment Compensation Fund*

*M.G.L. c. 40 §13C Workers' Compensation Claims Reserve Funds*

*M.G.L. c. 40 §13D Reserve Fund for Future Payment of Accrued Liabilities for Compensated Absences Reserve Policies*, MA DOR Division of Local Services Best Practice

#### **Adopted by:**

#### **Date Adopted:**

### **C.2 Free Cash**

#### **Background:**

The Division of Local Service's *Municipal Finance Glossary (May 2008)* defines Free Cash as follows:

Free Cash (Also Budgetary Fund Balance) – Remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the prior year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. Important: free cash is not available for appropriation until certified by the Director of Accounts.

Free Cash provides a financial cushion against events such as a sudden loss of a revenue source, an economic downturn, an emergency or other unanticipated expenditure, non-recurring capital expenditures, and uneven cash flow. Free cash can serve as a source for funding capital funds or replenish other reserves. GFOA notes it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures). DLS recommends that a municipality strive to maintain free cash in an amount equal to 3-to-5% of its annual budget.

**Policy:**

The City will seek to maintain free cash of 3-5% of the current fiscal year's General Fund Budget. Excess free cash may be used to support the annual budget but only for non-recurring or emergency expenditures, to replenish funds used in calculating reserve requirements, to fund unfunded liabilities (such as OPEB), to appropriate to stabilization funds, or for non-recurring one-time capital needs. Any appropriation from free cash of less than one million should be replaced in the subsequent fiscal year. Amounts appropriated greater than one million shall be phased in over three years.

**Reference:**

*Free Cash*, MA DOR Division of Local Services Best Practice.

**Adopted by:**

**Date Adopted:**

**C-3 General Stabilization Fund (Rainy Day Fund)**

**Background:**

A stabilization fund allows a city to maintain a reserve to enhance the city's fiscal stability. By state law, it allows a city to set aside monies to be available for future spending purposes, including emergencies or capital expenditures, although it may be appropriated for any lawful purpose.

Under State law, a municipality may establish one or more stabilization funds for different purposes and may appropriate into and from them in any year. Generally, a majority vote of City Council is required to establish, amend the purpose of, or appropriate money into a stabilization fund, and a two-thirds majority is required to appropriate money from a stabilization fund. Any interest generated by a fund must be added to and become a part of the fund.

**Policy:**

The City shall strive to maintain a General Stabilization Fund (Rainy Day Fund) of 3-5% of the General Fund Budget, creating essential liquidity, for the purpose of extraordinary or unforeseen expenditures.

The City will endeavor to leave the fund balance unspent, except in the event of an emergency or extraordinary or unforeseen events. If it is necessary to draw down from the Fund, the City will ensure that it is restored through the appropriation of revenues such as free cash and/or one-time revenues.

**References:**

*M.G.L. c. 40 §5B Stabilization Funds*

*Lynn City Council Order- Rainy Day Fund, June 2019*  
*Special Purpose Stabilization Funds, MA DOR Division of Local Services Best Practice.*

**Adopted by:**

**Date Adopted:**

## D. CAPITAL IMPROVEMENT PLAN

### Background:

Planning, budgeting, and financing for the replacement, repair, and acquisition of capital assets is a critical component of any municipality's budget and operation. Prudent planning and funding of capital assets ensures that a municipality can provide quality public services in a financially-sound manner. It is recognized that a balance must be maintained between operating and capital budgets so as to meet the needs of both to the maximum extent possible. The development of a Capital Improvement Program (CIP) is the mechanism that a municipality uses to identify projects, prioritize funding, and create a long-term financial plan that can be achieved within the limitations of the budget environment.

Long-term capital planning is one of the local government financial practices that credit rating agencies evaluate when assessing municipalities for credit quality.

### Policy:

Each year, the Mayor, with the assistance of the Chief Financial Officer, and in accordance with the City Charter Article 5, Sec. 5-5," shall *prepare and submit to the city council a five year capital outlay program at least three months prior to the final date for submission of the proposed operating budget.*

*Contents- The capital outlay program in the form submitted shall include:*

- (1) A clear general summary of its contents;*
- (2) A list of all capital expenditures which are proposed to be made during the five fiscal years next ensuing, with appropriate financial and other details concerning each such expenditure;*
- (3) Cost estimates, proposed methods of financing, and time scheduling for each such expenditure;*
- (4) The estimated annual cost to operate and maintain any facilities to be acquired or constructed.*

*The above information shall be revised and extended annually."*

At a minimum the following principles will guide the development of the CIP.

- The Chief Financial Officer will prepare forms and instructions and coordinate development of the capital improvement budget.
- Future operating costs associated with new capital improvement will be projected and included in operating budget forecasts, as appropriate.
- Federal, state, or private grants or loans shall be used to finance only those capital improvements that are consistent with the City's capital improvement plan and priorities, and for which operating and maintenance costs have been included in operating budget forecasts.
- All assets shall be maintained at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs.
- Equipment replacement and building repair needs shall be projected for the next five years and will be updated each year. From this projection, a maintenance and replacement schedule will be developed and followed.
- Capital projects shall be prioritized based upon criteria establish by the City.
- The estimated costs and potential funding sources for each proposed capital project shall be determined before it is submitted to the Mayor and City Council.

### References:

*Lynn City Charter Article 5 Financial Procedures, Section 5-5 Capital Outlay Program*  
*Massachusetts DLS Developing a Capital Improvement Program manual*

*GFOA Capital Improvement Program*

**Adopted by:**

**Date Adopted:**



## E. CAPITAL IMPROVEMENT FINANCING AND DEBT MANAGEMENT

### Background:

The funding of a municipal capital improvement program may come from many different sources. These funding sources can include current revenues, enterprise funds, grant funds, trust funds, user fees, special reserve funds, and borrowing. In Massachusetts, the municipality also has the ability to borrow funds that are outside the property tax limitations of Proposition 2 ½ by holding a city-wide vote. Debt management is essential to the overall financial planning of any municipality. Borrowing allows the city to finance projects that the city could not afford to pay from current operating dollars and also spreads the cost to citizens who will benefit in the future from the capital investment.

It is critical to develop policies and guidelines for the issuance, timing, and tax impact of current and future debt. For those projects supported by user fees, it is important to identify the impact on user rates as a result of debt service costs.

The Lynn City Charter, Article 5, Section 5-6 Certain Bonded Indebtedness states; *“Whenever the city council shall authorize the incurring of debt in excess of four million dollars by pledging the full faith and credit of the City of Lynn before such bonds shall be issued, the matter shall be referred to the voters for ratifications or rejection. The city council shall refer such matter to the voters at a regular or special election as it deems desirable. The form of question submitted shall be substantially as follows:*

*Shall the vote of the city council of (fill in date) wherein it was voted to approve borrowing the sum of (fill in amount) for the purpose of (fill in purpose) be approved?*

*If a majority of the votes cast on the question is in the affirmative, the vote of the city council shall thereupon become effective and be in full force and effect. If a majority of the votes cast on the question is in the negative the votes of the city council shall thereupon be nullified and no such bonds may be issued. This section shall not be constructed as requiring such a vote when the city treasurer borrows any sum of money in anticipation of taxes or other receipts.”*

### Policy:

Lynn shall have a goal of maintaining its capital infrastructure by establishing a “capital investment” benchmark of between 2.3% and 3.5% of its general fund budget, excluding exempt and enterprise debt. In order to maintain this level of investment, the City shall establish a Capital Stabilization Fund.

The capital improvement program (CIP) shall be prepared and financed in accordance with the following policies:

- Outside Funding – State, federal, or private grant funding shall be pursued and used to finance the capital budget wherever possible.
- Debt Exclusion – Projects, based upon cost, urgency of the project, long-term benefit of the project, or other large projects being simultaneously considered may be funded by a Proposition 2 ½ debt exclusion vote in order to collect annual revenues sufficient to pay the new debt costs and not impact funds necessary to maintain the annual City and school operating budgets.
- General Fund Debt – Projects may be funded by non-exempt debt with a careful review of the timing and impact on the operating budget while also maintaining the City’s investment in its capital infrastructure and equipment.
- Pay as You Go Capital Funding – Some capital projects should be paid from current revenues or one time sources.

Debt-Financing/Borrowing –

- The term of borrowing for a capital project shall not exceed its estimated useful life
- General Fund Debt Service as % of General Fund Budget – The annual Debt Service requirement should not exceed 10% of the City’s general fund annual revenues (excluding exempt debt and enterprise debt).
- The City will attempt to maintain a long-term debt schedule such that at least 50% of its outstanding principal will be paid within 10 years to 15 years.
- As General Fund Non-Proposition 2 ½ Debt Service is paid, the City shall maintain its investment in capital projects by utilizing this pay-off in planning debt service costs for new necessary projects.
- The City will strive to issue level principal debt such that debt service will decline over the term of the issue as another means to mitigate risk regarding this funding source. For any capital item funded by debt, cost of borrowing, including estimated principal and interest by fiscal year shall be projected in the Mayor’s Capital Improvement Program document.
- The strategy of utilizing “level debt service” versus “level principal and declining interest cost” shall be analyzed before borrowing is authorized.

**References:**

*M.G.L. c. 40 §5B Stabilization Funds*

*Lynn City Council Order- Capital Stabilization Fund, June, 2019*

*Lynn City Charter, Article 5, Section 5.6 Certain Bonded Indebtedness*

*Lynn Five Year Financial Forecast model, Edward J. Collins Center for Public Management 2019*

*Benchmarking and Measuring Debt Capacity, Government Finance Officers Association*

**Adopted by:**

**Date Adopted:**

## **F. GRANTS MANAGEMENT POLICIES**

### **Background:**

DLS recommends analyzing the current and future impact of grants on the operating budget, capital improvement program, and debt management.

The Government Finance Officers Association recommends that governments establish processes to promote awareness throughout the government that grants normally come with significant requirements.

### **F-1 Grant Administration**

#### **Policy:**

The City shall ensure that grants are efficiently and appropriately managed by the respective Boards/Commissions/Committee/Departments who receive the grant. The Mayor shall be notified by departments of all grant applications and shall approve or disapprove applications. Prior to acceptance of a grant award, the City shall consider any specialized requirement(s) that apply to the general operations of the grant, specific compliance rules, monitoring of other parties (e.g., sub-grantees) that may receive resources from the grant, specialized reporting requirements, and any long-term commitments required by the grant, such as the requirement - either as a condition of the grant itself or politically - to financially maintain a program or asset after the expiration of the grant, among other considerations. Effective grant management helps promote the pursuit of grants that are in the City's best interest and assure the timely reimbursements to optimize cash flow, and to guard against year-end account deficits. As a legal contract, every grant agreement must be fulfilled in accordance with its prescribed terms and conditions, as well as applicable federal, state, and local regulations. Failure in this regard exposes the City to legal and financial liabilities and compromises future grant funding.

No department shall expend grant funds, until a fully executed agreement has been accepted and approved for expenditure by the Mayor and City Council

Further, no grant funds shall be used to supplant an existing expense for the purpose of diverting current funds to another use.

The City Comptroller is responsible for consulting with departments on grant budgetary matters, accounting for grants in the general ledger, monitoring grant expenditures in excess of revenues, and distributing monthly reports of grant revenues and expenditures to departments.

The Boards/Commissions/Committees/Departments are responsible for ensuring consistency with award requirements and tracking the timeliness of reimbursement requests.

#### **Adopted by:**

#### **Date Adopted:**

## **F-2 Impact on Operating Budget**

### **Policy:**

When positions are funded by grants, the current and future impact on the operating budget shall be analyzed. When allowable, the cost for providing benefits, (such as health insurance, retirement contributions and matching Medicare payroll tax), should be included in the grant budget to cover the City's cost for providing those benefits.

**Adopted by:**

**Date Adopted:**

## **F-3 Impact on Capital Improvement Program**

### **Policy:**

When grants are accepted for capital purposes, the City shall include in its capital improvement program any share of costs associated with the grant and project the City's share of debt service in its debt management plan. Any future increase or decrease in operating costs associated with the grant should be identified in the City's revenue /expenditure forecast.

### **References:**

*Administering Grants Effectively*, Government Finance Officers Association Best Practice, May 2013.

**Adopted by:**

**Date Adopted:**

## **G. POLICIES REGARDING ESTABLISHMENT OF FEES**

### **G-1 Fees and Charges**

#### **Background:**

The Government Finance Officers Association recommends that when certain services provided especially benefit a particular group, governments should consider charges and fees on the service recipients. Well-designed charges and fees not only reduce the need for additional revenue sources, but promote service efficiency. Regular and consistent review of all fees is necessary to ensure the costs associated with the delivery of specific services have been appropriately identified and that a municipality is collecting reasonable charges.

The Division of Local Services recommends communities adopt written policies for setting charges and fees. A policy should identify what factors are to be taken into account when pricing services. It should also state whether the community intends to recover the full cost of providing the service or benefit and under what circumstances a charge or fee is set at less than full recovery. Such a policy and the fee structure should be reviewed periodically to ensure they remain current, and both should be communicated with the public clearly and openly.

#### **Policy:**

City fees and charges shall be reviewed periodically in relation to the cost of providing the service. The City will compare rates with nearby and comparable communities to determine if the fees established are reasonable. The City may decide against full cost recovery where greater public benefit is demonstrated. Exceptions to full recovery costs include cases where: the fee maximums are established by the General Laws of Massachusetts (MGL) or where a policy decision has been made otherwise.

#### **References:**

*Costing Municipal Services: Workbook and Case Study, MA DOR Division of Local Services' workbook.*  
*Establishing Government Charges and Fees, Government Finance Officers Association Best Practice, February 2014*  
*Division of Local Services - A Guide to Financial Management for City Officials, p. 20-21.*

#### **Adopted by:**

#### **Date Adopted:**

## **H. USE OF ONE TIME REVENUE**

### **H-1 Use of One Time Revenue**

#### **Background:**

The Government Finance Officers Association recommends that communities develop guidance on the use of one-time revenues to minimize services disruptions due to the non-recurrence of these sources.

The Division of Local Services states that funding operations with one-time revenues, without identifying future available offsets, effectively postpones difficult decisions necessary to achieve a structurally sound, sustainable spending plan. One-time revenue is usually defined as nonrecurring revenue.

#### **Policy:**

One-time revenues shall be appropriated to reserve funds, used to fund one-time budget or capital costs, and/or shall address unfunded liabilities.

#### **Adopted by:**

#### **Date Adopted:**

## **I. UNFUNDED LIABILITIES**

### **Background:**

Defined as “the actuarial calculation of the value of future benefits payable less the net assets of the fund at a given balance date”, unfunded liabilities represent a significant financial obligation for all levels of government across the country. In Massachusetts municipalities, the two primary unfunded liabilities are for Pensions and Other Post-Employment Benefits (OPEB).

### **I-1 Pensions/Retirement**

#### **Background:**

The Contributory Retirement System is a defined benefit program that is governed by Massachusetts General Laws, Ch.32 and is regulated by the Public Employee Retirement Administration Commission (PERAC), a state entity responsible for the oversight, guidance, monitoring, and regulation of Massachusetts' 105 public pension systems. Funding for this system covers the costs of employees who are part of the City's retirement system, which does not include teachers, as their pensions are funded by the State. The City of Lynn maintains its own Retirement System and appropriates funds as voted by the Lynn Retirement Board based upon the funding schedule adopted by the Board and approved by PERAC.

#### **Policy:**

In accordance with state law, PERAC regulations, and government accounting standards, the City shall continue to fund this liability in the most fiscally prudent manner, recognizing the fact that the adoption of a funding schedule is, by law, the responsibility of the Lynn Retirement Board. Upon the completion of meeting the City's funding liability according to the adopted funding schedule, 50% of the drop off in the annual pension appropriation shall be utilized to fund the City's OPEB liability.

#### **References:**

*M.G.L. c.32*

#### **Adopted by:**

#### **Date Adopted:**

### **I-2 Other Post- Employment Benefits (OPEB)**

#### **Background:**

OPEB consists primarily of the costs associated with providing health insurance for retirees and their spouses. The Government Accounting Standards Board (GASB) issued Statements No. 43 and No. 45 in 2004 to address the OPEB issue. GASB 43 required the accrual of liabilities of OPEB generally over the working career of plan members rather than the recognition of pay-as-you-go contributions, while GASB 45 required the accrual of the OPEB expense over the same period of time. The reporting requirements of GASB 43 and 45 include disclosures and schedules providing actuarially determined values related to

the funded status of OPEB. This requires that the accrued liabilities be determined by a qualified actuary using acceptable actuarial methods.

**Policy:**

Lynn shall establish an OPEB Liability Trust Fund. This Trust Fund is an irrevocable trust, and its assets can only be used to fund the OPEB liability for retirees.

The City will formulate a funding policy for OPEB in conjunction with its retirement funding schedule.

**References:**

*MGL c. 32B, §20 Other Post Employment Trust Fund*

*Statement No. 43, Reporting for Postemployment Benefit Plans Other than Pension Plans, Governmental Accounting Standards Board - April 2004*

*Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, Governmental Accounting Standards Board, June 2004.*

*GASB Statements 43 and 45 on Other Postemployment Benefits, Governmental Accounting Standards Board.*

**Adopted by:**

**Date Adopted:**



## **J. RISK MANAGEMENT AND FRAUD PREVENTION POLICIES**

### **J-1 Risk Management Program**

#### **Background:**

In recognition that during daily operations, a municipality is constantly exposed to potential impact of property loss, personal injury, and liability, the Government Finance Officers Association recommends that governments develop a comprehensive risk management program that identifies, reduces, and minimizes risk to its property, interests, and employees. Costs and consequences of harmful or damaging incidents arising from those risks should be contained.

#### **Policy:**

The City's insurance programs shall be aimed at covering the potential impact of the types of property loss, personal injury, and liability the City is exposed to on a regular basis.

The City shall develop and maintain a risk management program to protect the City against the financial consequences of accidental loss of property, liability, fraud, and personal injury to the extent possible through effective prevention and loss control policies and practices.

#### **References:**

*Creating a Comprehensive Risk Management Program*, Government Finance Officers Association Best Practice, March 2009.

#### **Adopted by:**

#### **Date Adopted:**

### **J-2 Anti-Fraud Policy and Response Program**

#### **Background:**

A municipality is committed to its duty to ensure effective stewardship of public money and other assets and resources for which it is responsible. It should aim to prevent and deter all forms of fraud that could threaten the security of its assets or its reputation.

Fraud is a violation of trust that is defined as a deception deliberately practiced to secure unfair or unlawful gain. The term includes but is not limited to such acts as deception, bribery, forgery, extortion, theft, embezzlement, misappropriation of money or assets, false representation, the concealment of material facts relating to any of the above, and collusion or conspiracy to commit any or all of the above.

#### **Policy:**

The City is committed to the prevention, detection, investigation, and corrective action relative to fraud. Most important is that an ethical environment is created from the top, and flows through the organization. All cases of suspected fraud will be investigated, and appropriate action will be taken.

Fraud can cover many activities; however, this Policy is directed primarily at financial matters. It may include, but is not limited to:

**Misappropriation of Assets**

- 1) Forgery, alteration, or misappropriation of checks, drafts, promissory notes, or securities
- 2) Unauthorized use, or disposition of funds or property (for example, misuse of City-owned computer hardware, software, data and other records; use of City-owned equipment, vehicles or work time for non-City purposes)
- 3) Embezzlement
- 4) Theft
- 5) Falsifying time sheets or payroll records
- 6) Falsifying travel or entertainment expenses and/or utilizing City funds to pay for personal expenses or for personal benefit
- 7) Fictitious reporting of receipt of funds

**Fraudulent Financial Reporting**

- 1) Improper revenue recognition
- 2) Improper expense/expenditure recognition
- 3) Overstatement of assets
- 4) Understatement of liabilities

**Expenditures and Liabilities for Improper Purposes**

- 1) Payments in money or other property, including but not limited to such things as jobs for families and friends, use of vacation properties, discounted or free services in exchange for benefits and other things of value, bribes and kickbacks

The City recognizes there may only be a suspicion of fraud - thus any concerns should be reported to the City Comptroller. If the concern involves the City Comptroller, any concerns should be reported to the Chief Financial Officer.

The City Comptroller will investigate any suspected acts of fraud or misappropriation of property. An objective and impartial investigation will be conducted regardless of the position, title, and length of service or relationship with the City of any person, group, or organization reasonably believed to have committed fraud. Each Department Head is responsible for instituting and maintaining a system of internal control to provide reasonable assurance for the prevention and detection of fraud, misappropriations, and other irregularities.

All department heads or individuals, upon discovery of any violation of this policy, must notify the City Comptroller of the violation. If it is determined by the City Comptroller that corrective action may be provided for internally within the department, the Department Head or individual will notify the City Comptroller as to the steps taken to correct the violation.

Upon conclusion of the investigation, the results will be reported to the Mayor (or School Superintendent, as applicable). All significant findings will also be reported to the Chairman of the City Council (or Chairman of the School Committee, as applicable). Where there are reasonable grounds to believe that a fraud may have occurred, the City shall pursue appropriate legal remedies for recovery of the assets.

**Adopted by:**

**Date Adopted:**

## **K. INTERNAL CONTROL, ACCOUNTING, AND FINANCIAL REPORTING POLICIES**

### **K-1 Internal Control**

#### **Background:**

Internal control policies and procedures are designed to assure that public funds are administered and expended in compliance with applicable regulations and laws; that the funds are used for authorized purposes; and that there is an accurate reporting on the use of these public funds. The Committee of Sponsoring Organizations (COSO) representing the American Accounting Association, American Institute of CPAs, Financial Executives International, Institute of Management Accountants and the Institute of Internal Auditors, was formed to establish a framework for organizations to evaluate their internal controls:

#### **CONTROL ENVIRONMENT**

- 1) Demonstrates commitment to integrity and ethical values
- 2) Exercises oversight responsibility
- 3) Establishes structure, authority, and responsibility
- 4) Demonstrates commitment to competence
- 5) Enforces accountability

#### **RISK ASSESSMENT**

- 6) Specifies suitable objectives
- 7) Identifies and analyzes risk
- 8) Assesses fraud risk
- 9) Identifies and analyzes significant change

#### **CONTROL ACTIVITIES**

- 10) Selects and develops control activities
- 11) Selects and develops general controls over technology
- 12) Deploys through policies and procedures

#### **INFORMATION & COMMUNICATION**

- 13) Uses relevant information
- 14) Communicates internally
- 15) Communicates externally

#### **MONITORING**

- 16) Conducts ongoing and/or separate evaluations
- 17) Evaluates and communicates deficiencies

**Policy:**

The City will develop, train, implement, and monitor financial accounting procedures that reflect the internal control framework described by COSO. Key finance staff will review current and on-going internal procedures with employees and provide both written and verbal guidance to assure compliance with proper internal control.

**References:**

*The Committee of Sponsoring Organizations (COSO) representing the American Accounting Association*

**Adopted by:****Date Adopted:****K-2 Annual Audit****Background:**

The objective of an audit is to obtain independent assurance that a community's year-end financial statements are reliable, accurate, and complete. An audit also helps to ensure that financial checks and balances are in place to protect public assets. Consequently, it can be a powerful tool by which a community can build taxpayer confidence in government operations.

The Government Finance Officers Association (GFOA) recommends that communities engage the same audit firm by entering into multiyear agreements, or a series of one-year contracts, for a term of at least five years. A multiyear agreement allows for greater continuity and enables a new auditor to spread initial start-up costs over multiple years, potentially reducing costs in the initial years.

However, after this term, the GFOA recommends a full, competitive selection process and a rotation of auditors after each multiyear agreement, provided there is adequate competition among qualified auditors. Contracting with a new audit firm not only brings a fresh perspective, but it also reflects good practice.

Where competition is limited, participation of the current auditor is acceptable, assuming their past performance has been satisfactory and conformed to industry standards. In the event the City chooses to remain with an audit firm, it is advisable to rotate the audit manager on a regular basis.

**Policy:**

The City will utilize accounting practices that best conform to generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB).

The City shall have an independent outside audit performed by a certified public accountant each year. The City shall provide for such an audit by an accountant or a firm of accountants, who have no personal interests, direct or indirect, in the fiscal affairs of the City government or of any of its officers or employees. The City will require that each year, a Management Letter be provided as part of the independent public accounting firm as a companion document to the annual audit. The City will either re-

advertise for auditing services every five to eight years or ensure that there is a regular rotation of audit managers within a particular firm if it elects to stay with a given audit firm. The City will strive to have the annual audit completed by the end of November.

**References:**

*Lynn City Charter, Article 5 Financial Procedures, Section 5-4 Independent Audit*  
*MGL Chapter 40, Section 44I Annual Audit*  
*Annual Audits, MA DOR Division of Local Services Best Practice.*

**Adopted by:**

**Date Adopted:**

**K-3 Audit Committee**

**Background:**

The following statement is provided by the Government Finance Officers Association concerning the establishment and purpose of an audit committee. *"An audit committee is a practical means for a governing body to provide much needed independent review and oversight of the government's financial reporting processes, internal controls, and independent comptrollers. An audit committee also provides a forum separate from management in which comptrollers and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an audit committee helps to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management's practices, and that the independent comptrollers, through their own review, objectively assess the government's financial reporting practices."*

**Policy:**

Audit recommendations shall be handled expeditiously, and the City shall explore the format, membership and duties of an audit committee for potential future establishment.

**References:**

*Audit Committees, Government Finance Officers Association Best Practice, October 2008.*

**Adopted by:**

**Date Adopted:**

**K-4 Budget Reporting**

**Background:**

Reporting budget status is a critical practice to assist departments and upper management monitor up-to-date expenditures and revenues. It enables the City to take prompt management action in the event that fiscal problems are indicated or adjust spending behavior to meet financial challenges.

The City Charter Section 2-6 Communications; Special Meetings states;

*(a) Communications to the City Council--Within six weeks following the start of each fiscal year, the mayor shall submit to the city council, and make available for public distribution, a complete report on the financial and administrative activities of the city for the preceding fiscal year, as provided in Section 8-15. He shall from time to time throughout the year, by written communications, keep the city council fully informed of the financial condition and administrative problems of the city and shall recommend to them such measures for their consideration as, in his judgment, the needs of the city require."*

**Policy:**

The Chief Financial Officer shall distribute to the Mayor and City Council quarterly and Department Heads monthly budget-to-actual reports. If financial problems are indicated, the Chief Financial Officer will review with the City Comptroller and affected departments and recommend any potential corrective action to the Mayor.

**References:**

*Lynn City Charter Sec 2-6(a) Communications to the City Council Special*

**Adopted by:**

**Date Adopted:**

**K-5 Cash Collections**

**Background:**

One of a government's functions is to collect taxes and other revenues. The process involves many actors including the Chief Financial Officer, Treasurer/Collector's office, Comptroller, legal counsel, Tax Assessor, other departments or agencies, other governments at the state and/or local level, commercial banks, and private collection agencies.

**Policy:**

The City shall collect all revenue using fair and consistent methods, exercising all powers provided to it under law.

On or before December 1, the City shall commence tax title proceedings against all properties that owe property taxes to the City.

The Treasurer/Collector shall establish and maintain reliable record keeping systems and enforce a timely collections process. All amounts committed must be supported with a warrant and a detailed listing of all amounts due. All monies received should be turned over to the Treasurer/Collector's office at least weekly so they may be deposited in the bank in a timely manner.

The Treasurer/Collector shall aggressively pursue the collection of delinquent accounts and with assistance from the Deputy Collector and other City officials pursue collection of outstanding real estate taxes, personal property taxes, excise taxes, and fines. The execution of a systematic and deliberate program to collect taxes owed is intended not only to capture revenue, but also to establish a clear policy that tax delinquents will be aggressively pursued. The Treasurer/Collector shall execute in a timely manner

collection remedies such as issuance of demands immediately after bills become past due and initiate tax taking shortly afterwards to increase the rate of collection of municipal monies, thereby assisting in the financial stability of the City.

**References:**

*Revenue Collection*, Government Finance Officers Association Best Practice.

**Adopted by:**

**Date Adopted:**

**K-6 Reconciling Cash and Receivables**

**Background:**

Two of the largest assets for a community are cash and receivables. Information pertaining to these is kept by the Treasurer/Collector, and the Comptroller. A Treasurer is the custodian of the community's revenues, tax titles, and tax possessions, while a Collector keeps listings of outstanding receivables due to the community, and a Comptroller is responsible for maintaining the accounting records. Prompt and frequent reconciliations between these offices are essential in order to maintain control and ensure checks and balances are in place.

**Policy:**

Within thirty days after the end of each month, the Treasurer/Collector shall internally reconcile the cashbook to all bank statements and all receivable balances with the receivable control. The results of these activities shall be forwarded to the Comptroller's office and compared to the general ledger records. If differences are determined, the Treasurer/Collector and Comptroller shall reconcile the variances (e.g., missing information, errors, and timing differences).

The City shall reconcile revenues and expenditures for each fiscal year within 75 days of the end of the fiscal year.

**References:**

*Treasurer's Manual 2009 and Collector's Manual 2008: Massachusetts Collectors & Treasurers Association Reconciling Cash and Receivables*, MA DOR Division of Local Services Best Practice February 2016

**Adopted by:**

**Date Adopted:**

**K-7 Cash Flow Forecasting and Budgeting**

**Background:**

The purpose of cash flow forecasting is to determine whether sufficient funds are available to cover current obligations, any surplus can be invested, or if any cash shortfall exists which may require temporary borrowing.

The Division of Local Services recommends maintaining a cash flow budget to forecast investment opportunities or borrowing needs. Major revenue sources like property taxes and state aid are generally received in large, lump sums at specific points in the fiscal year and do not necessarily coincide with expense patterns, which often results in cash surpluses or shortfall during certain periods of the year.

The Government Finance Officers Association also recommends cash flow forecasting as a best practice. When used as a cash management guide, it can lead to the optimized use of funds as well as ensure sufficient liquidity.

**Policy:**

The Treasurer/Collector will develop a cash flow forecast for the upcoming fiscal year after approval of the annual budget and a rolling one-year cash flow throughout the fiscal year.

**References:**

*Cash Flow Forecast in Treasury Operations*, Government Finance Officers Association Best Practice, February 2011.

**Adopted by:**

**Date Adopted:**



## **L. PROCUREMENT AND PURCHASING POLICIES**

### **L-1 Procurement and Purchasing Policy**

#### **Background:**

The Commonwealth of Massachusetts establishes municipal purchasing regulations under MGL:

- Chapter 30B (Supplies and Services)
- Chapter 149 (Building Construction)
- Chapter 30, §39M (Non-Building Construction)
- Chapter 7 §§ 44-57 (Design Services for Public Building Projects)

The State Inspector General's office has oversight of public purchasing laws and has published comprehensive guides to purchasing requirements.

The City has detailed the duties of the Purchasing Agent in the City Charter Article 6, Sec 2.40.040- 110.

#### **Policy:**

The City shall follow the guidance contained in the Inspector General's publications, including, but not limited to "*The Chapter 30B Manual: Procuring Supplies, Services and Real Property*" in order to comply with state purchasing requirements. To supplement this guidance, the City Purchasing Director will maintain a concise manual on purchasing procedures for department heads or others involved in City purchasing or procurement.

#### **References:**

*Lynn City Charter Article 6 Administrative Organization, Section 2.40 Purchasing Agent*  
*MGL Ch. 30B Uniform Procurement Act*  
*Lynn Purchasing Manual- 2019*

#### **Adopted by:**

#### **Date Adopted:**

## **M. TREASURER INVESTMENT POLICIES**

### **M-1 Investment Policies – General Fund, Stabilization Fund, OPEB Trust Fund, Other City Funds**

#### **Background:**

A local government's investment policy establishes guidelines and responsibilities in accordance with state law for managing and investing municipal funds.

The Governmental Accounting Standards Board recommends the disclosure of key policies affecting cash deposits and other long-term investments to ensure they are managed prudently and are not subject to extraordinary risks.

When assessing municipalities for credit quality, rating agencies look for investment management policies that address selection of financial institutions for services and transactions, risk assessment, investment objectives, investment maturities and volatility, portfolio diversification, safekeeping and custody, and investment performance reporting, benchmarking, and disclosure.

#### **Policy:**

#### **SECTION 1: The Investment of General Funds, Special Revenue Funds, and Capital Projects funds.**

##### **A. Scope**

This section of the policy applies only to short-term operating funds such as general funds, special revenue, enterprise funds and capital project funds. Section Two will deal with trust funds, bond proceeds, and any other funds with special circumstances such as stabilization funds. The City Retirement Board is responsible for the investment of the pension funds.

##### **B. Objectives**

Massachusetts General Law, Chapter 44, section 55B requires the municipal treasurer to invest all public funds except those required for the purpose of immediate distribution. Modern banking systems enable the public treasurer to maintain even these funds in interest bearing form until the date a disbursement order clears through the banking system. The state law further requires that invested funds be placed at the highest possible rate of interest reasonably available, taking into account safety, liquidity, and yield. Therefore, these guidelines are intended to further the objective of securing the highest return that is consistent with safety of principal while meeting the daily cash requirements for the operation of City's business.

Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit and interest rate risk. These risks shall be lessened by diversification and prudent selection of investments and choice of bank or brokerage house. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest risk is the risk that the market value of the security will fall due to changes in general interest rates.

Liquidity is the next most important objective. The overall investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the Treasurer shall carry out investment activities in a manner that provides for meeting unusual cash demands without liquidation of investments that could result in forfeiture of accrued interest earnings and loss of principal in some cases.

Yield is the third, and last, objective. Investments shall be made so as to achieve the best rate of return, taking into account safety and liquidity constraints as well as all legal requirements.

### **C. Investment Instruments**

Public investments in Massachusetts are not protected through provisions in State law. Therefore, they are largely uncollateralized. Many banking institutions are willing to put up collateral, albeit at a cost to the City of lower interest rate. The Treasurer negotiates for the highest rates possible, consistent with safety principles.

The Treasurer may invest in the following instruments under Massachusetts General Law, Chapter 44, Section 55B:

1. Massachusetts State pooled fund: Unlimited amounts (pool is liquid). The Massachusetts Municipal Depository Trust (MMDT), an investment pool for state, local, county and other independent governmental authorities, is under the auspices of the State Treasurer and currently managed by Fidelity Investments. It invests in Bankers Acceptances, Commercial Paper of high quality, Bank Certificates of Deposit, Repurchase agreements (Repos), and U.S. Treasury Obligations. It has Federal Deposit Insurance Corporation (F.D.I.C.) pass through insurance on the C.D.s and takes delivery on the Repos and Treasuries.
2. U.S. Treasuries that will be held to maturity: Unlimited amounts (up to one-year maturity from date of purchase).
3. U.S. Agency obligations that will be held to maturity amounts (up to one-year maturity from date of purchase).
4. Bank accounts or Certificates of Deposit, termed C.D.'s. Unlimited amount (up to one year) which are fully collateralized through a third party agreement.
5. Bank accounts and C.D.'s (up to one year) fully insured by F.D.I.C. and in some cases also Depository Insurance Fund of Massachusetts (D.I.F.): All bank accounts and C.D.'s in one institution are considered in the \$250,000 aggregate to receive the insurance coverage.
6. Unsecured bank deposits of any kind such as other checking, savings, money market, or Certificates of Deposit accounts at banks that do not fit the above categories. These investments will be limited to no more than 5% of an institution's assets and no more than 10% of the City's cash. Their credit worthiness will be tracked by Veribanc or other bank reporting systems. They will be diversified as much as possible. As a general rule, C.D.s will be purchased for no more than three months and will be reviewed frequently. These limits do not apply to fully insured deposits.
7. Repurchase Agreements ("Repos"), not to exceed ninety days.
8. Certain mutual funds, under Chapter 44, Sec. 55 of MGL, as amended by Chapter 314 of the Acts of 1996.

### **D. Diversification**

Diversification should be interpreted in two ways: in terms of maturity, as well as instrument type and issuer. The diversification concept should include prohibition against over concentration of maturities as well as concentration in a specific institution. With the exception of U.S. Treasuries or agencies, and State pools (MMDT), no more than 10% of the City's investments should be invested in a single financial institution.

#### **E. Authorization**

The Treasurer has authority to invest the City's funds, subject to the statutes of the Commonwealth cited above.

#### **F. Ethics**

The City Treasurer (and Assistant Treasurer) shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair their ability to make impartial investment decisions. Said individuals shall disclose to the Mayor any material financial interest in financial institutions that do business with the City. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the City's investments.

#### **G. Relationship with Financial Institutions**

Financial institutions should be selected first and foremost with regard to safety. The City should subscribe to and use one or more of the recognized bank rating services, such as Veribanc or Sheshunoff. Brokers should be recognized, reputable dealers.

The Treasurer shall require any brokerage houses and broker/dealers, wishing to do business with the municipality, to supply the following information to the Treasurer:

- Audited financial statements
- Proof of National Association of Security Dealers certification.
- Proof of credit worthiness (minimum standards: at least five years in operation and a minimum capital of 10 million dollars)

#### **H. Reporting Requirements**

An annual report containing the following information will be prepared by the Treasurer and given to the Chief Financial Officer. The report will include the following information, as a minimum requirement:

- A listing of the individual accounts and individual securities held at the end of the reporting period.
- A listing of the short-term investment portfolio by security type and maturity to ensure compliance with the diversification and maturity guidelines established in the "Diversification" section of this Investment Policy.

The Treasurer shall include in the report a brief statement of general market and economic conditions and other factors that may affect the City's cash position.

The report should demonstrate the degree of compliance with the tenets set forth in the Investment Policy.

### **SECTION 2: The Investment of the Trust Funds and Bonds Proceeds**

#### **A. Scope**

This section of the policy applies only to funds that could be invested long term (i.e., bond proceeds, trust funds, and stabilization funds).

#### **B. Bond Proceeds**

Investment of bond proceeds is governed by the same restrictions as general funds, with additional requirements for compliance with arbitrage regulations.

### **C. Trust Funds**

Trust Funds may be co-mingled and invested in any instruments allowed by the Legal List issued by the Banking Commissioner. Each trust fund must be accounted for separately.

### **D. Stabilization Funds**

The Stabilization Fund shall not exceed ten per cent of the equalized valuation of the City, and any interest shall be added to and become a part of the fund. The Treasurer may invest the proceeds in the following:

- National Banks Savings Banks
- Cooperative banks or trust companies organized under Massachusetts laws
- Securities legal for savings banks (i.e. those on the Legal List described above)
- Federal Savings and Loan Associations situated in the Commonwealth Massachusetts Municipal Depository Trust
- Approved Money Market funds

## **SECTION 3: The Investment of OPEB Trust Funds.**

### **A. Scope**

OPEB Trust by special legislation and approval by IRS for tax exempt status will grant the City Treasurer authority to invest with City of Lynn Retirement Board in a separate fund.

The Treasurer/Collector is responsible for developing and maintain the policies for investing City funds and will make all decisions regarding their management. The Treasurer/Collector shall invest City funds in a manner that meets daily operating cash flow requirements and conforms to state statutes governing public funds, while adhering to generally accepted diversification, collateralization, and the prudent investment principles of safety, liquidity, and yield. The Treasurer/Collector will also regularly monitor statutory changes governing investments and offer any policy amendments. The Treasurer/Collector will submit a report of investments on a regular basis to the Chief Financial Officer.

### **References:**

*M.G.L. Ch. 40, §5; M.G.L. Ch. 44, §54, §55A, §55B; and M.G.L. c. 44B, §7*

*Deposit and Investment Risk Disclosures*, Governmental Accounting Standards Board Statement No. 40, as amended by Statement No. 3, March 2003.

*Creating an Investment Policy*, Government Finance Officers Association Best Practice, October 2010.

*Financial Management Assessment*, Standard and Poor's, June 2006.

### **Adopted by:**

### **Date Adopted:**

## **M-2 Post-Issuance Tax Compliance Procedure for Tax-Exempt Debt Obligations and Other Tax-Benefited Obligations**

### **Background:**

Post-issuance compliance procedures are designed to provide for the effective management of a municipality's post-bond or note issuance compliance program for tax-exempt and other tax-benefited

bonds in a manner consistent with state and federal laws applicable to such obligations.

**Policy:**

The Treasurer/Collector shall review post-issuance compliance procedures and the disclosure statement provided by the Financial Advisor at least annually and implement revisions or updates as deemed appropriate, in consultation with bond counsel and/or the Financial Advisor.

The Treasurer/Collector shall be the primary bond compliance officer responsible for each issuance by the City of tax-exempt (or otherwise tax-benefited) bonds, notes, financing leases, or other obligations. All information related to each bond issue and the facilities, equipment, and other assets financed by such issue shall be maintained by or on behalf of the Treasurer/Collector.

**References:**

*Municipal Advisor Disclosure Statement*

**Adopted by:**

**Date Adopted:**

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## APPENDIX 1: SELECTED GLOSSARY OF TERMS

**Available Funds** – Balances in the various fund types that represent non-recurring revenue sources. As a matter of sound practice, they are frequently appropriated to meet unforeseen expenses, for capital expenditures or other onetime costs. Examples of available funds include free cash, stabilization funds, overlay surplus, water surplus, and enterprise net assets unrestricted (formerly retained earnings).

**Betterments (Special Assessments)** – Whenever part of a community benefits from a public improvement, or betterment (e.g., water, sewer, sidewalks, etc.), special property taxes may be assessed to the property owners of that area to reimburse the governmental entity for all, or part, of the costs it incurred in completing the project. Each property parcel receiving the benefit is assessed a proportionate share of the cost which may be paid in full, or apportioned over a period of up to 20 years. In this case, one year's apportionment along with one year's committed interest computed from October 1 to October 1 is added to the tax bill until the betterment has been paid.

**Block Grant** – A Block Grant is a Federal grant of money awarded by formula under very general guidelines that allow grantees broad latitude in spending activities. Recipients are normally state or local governments.

**Bond** – A means to raise money through the issuance of debt. A bond issuer/borrower promises in writing to repay a specified sum of money, alternately referred to as face value, par value or bond principal, to the buyer of the bond on a specified future date (maturity date), together with periodic interest at a specified rate. The term of a bond is always greater than one year.

**Bond and Interest Schedule Record (Bond Register)** – The permanent and complete record maintained by a treasurer for each bond issue. It shows the amount of interest and principal coming due each date and all other pertinent information concerning the bond issue.

**Bond Anticipation Note (BAN)** – Short-term debt instrument used to generate cash for initial project costs and with the expectation that the debt will be replaced later by permanent bonding. Typically issued for a term of less than one year, BANs may be re-issued for up to five years, provided principal repayment begins after two years (MGL

Ch. 44§17). Principal payments on school related BANs may be deferred up to seven years (increased in 2002 from five years) if the community has an approved project on the Massachusetts School Building Authority (MSBA) priority list. BANs are full faith and credit obligations.

**Bond Authorization** – The action of City meeting or a city council authorizing the executive branch to raise money through the sale of bonds in a specific amount and for a specific purpose. Once authorized, issuance is by the treasurer upon the signature of the mayor, or selectmen. (See Bond Issue)

**Bond Buyer** – A daily trade paper containing current and historical information of interest to the municipal bond business.

**Bond Counsel** – An attorney or law firm engaged to review and submit an opinion on the legal aspects of a municipal bond or note issue.

**Bond Issue** – The actual sale of the entire, or a portion of, the bond amount authorized by a City meeting or city council.

**Bond Rating (Municipal)** – A credit rating assigned to a municipality to help investors assess the future ability, legal obligation, and willingness of the municipality (bond issuer) to make timely debt service payments. Stated otherwise, a rating helps prospective investors determine the level of risk associated with a given fixed-income investment. Rating agencies, such as Moody's and Standard and Poor's, use rating systems, which designate a letter or a combination of letters and numerals where AAA is the highest rating and C1 is a very low rating.

**Bonds Authorized and Unissued** – Balance of a bond authorization not yet sold. Upon completion or abandonment of a project, any remaining balance of authorized and unissued bonds may not be used for other purposes, but must be rescinded by City meeting or the city council to be removed from community's books.

**Capital Assets** – All tangible property used in the operation of government, which is not easily converted into cash, and has an initial useful life extending beyond a single financial reporting period. Capital assets include land and land improvements; infrastructure such as roads, bridges, water and sewer lines; easements; buildings and building improvements; vehicles,



machinery and equipment. Communities typically define capital assets in terms of a minimum useful life and a minimum initial cost. (See Fixed Asset)

**Capital Budget** – An appropriation or spending plan that uses borrowing or direct outlay for capital or fixed asset improvements. Among other information, a capital budget should identify the method of financing each recommended expenditure, i.e., tax levy or rates, and identify those items that were not recommended. (See Capital Asset, Fixed Asset)

**Capital Improvements Program** – A blueprint for planning a community's capital expenditures that comprises an annual capital budget and a five-year capital program. It coordinates community planning, fiscal capacity and physical development. While all of the community's needs should be identified in the program, there is a set of criteria that prioritizes the expenditures.

**Capital Outlay** – The exchange of one asset (cash) for another (capital asset), with no ultimate effect on net assets. Also known as "pay as you go," it is the appropriation and use of available cash to fund a capital improvement, as opposed to incurring debt to cover the cost.

**Capital Outlay Expenditure Exclusion** – A temporary increase in the tax levy to fund a capital project or make a capital acquisition. Exclusions require two-thirds vote of the selectmen or city council (sometimes with the mayor's approval) and a majority vote in a community-wide referendum. The exclusion is added to the tax levy only during the year in which the project is being funded and may increase the tax levy above the levy ceiling

**Chapter 90 Highway Funds** – State funds derived from periodic transportation bond authorizations and apportioned to communities for highway projects based on a formula under the provisions of MGL Ch. 90 §34. The Chapter 90 formula comprises three variables: local road mileage (58.33 percent) as certified by the Massachusetts Highway Department (MHD), local employment level (20.83 percent) derived from the Department of Employment and Training (DET), and population estimates (20.83 percent) from the US Census Bureau. Local highway projects are approved in advance. Later, on the submission of certified expenditure reports to MHD, communities receive cost reimbursements to the limit of the grant.

**Contingent Appropriation** – An appropriation that authorizes

spending for a particular purpose only if subsequently approved in a voter referendum.

Under MGL Ch. 59 §21C (m), Cities may make appropriations from the tax levy, available funds or borrowing, contingent upon the subsequent passage of a Proposition 2½ override or exclusion question for the same purpose. If initially approved at an annual City meeting, voter approval of the contingent appropriation must occur by September 15. Otherwise, the referendum vote must occur within 90 days after the City meeting dissolves. The question may be placed before the voters at more than one election, but if not approved by the applicable deadline, the appropriation is null and void. If contingent appropriations are funded through property taxes, DOR cannot approve the tax rate until the related override or exclusion question is resolved or the deadline passes, whichever occurs first.

**Debt Authorization** – Formal approval by a two-thirds vote of City meeting or city council to incur debt, in accordance with procedures stated in MGL Ch. 44 §§1, 2, 3, 4a, 6-15.

**Debt Burden** – The amount of debt carried by an issuer usually expressed as a measure of value (i.e., debt as a percentage of assessed value, debt per capita, etc.). Sometimes debt burden refers to debt service costs as a percentage of the total annual budget.

**Debt Exclusion** – An action taken by a community through a referendum vote to raise the funds necessary to pay debt service costs for a particular project from the property tax levy, but outside the limits under Proposition 2½. By approving a debt exclusion, a community calculates its annual levy limit under Proposition 2½, then adds the excluded debt service cost. The amount is added to the levy limit for the life of the debt only and may increase the levy above the levy ceiling.

**Debt Limit** – The maximum amount of debt that a municipality may authorize for qualified purposes under state law. Under MGL Ch. 44 §10, debt limits are set at 5 percent of EQV. By petition to the Municipal Finance Oversight Board, cities and cities can receive approval to increase their debt limit to 10 percent of EQV.

**Debt Policy** – Part of an overall capital financing policy that provides evidence of a commitment to meet infrastructure needs through a planned program of future financing. Debt policies should be submitted to elected officials for consideration and approval.

**Debt Service** – The repayment cost, usually stated in annual

terms and based on an amortization schedule, of the principal and interest on any particular bond issue.

**Enterprise Fund** – An enterprise fund, authorized by MGL Ch. 44 §53F½, is a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. It allows a community to demonstrate to the public the portion of total costs of a service that is recovered through user charges and the portion that is subsidized by the tax levy, if any. With an enterprise fund, all costs of service delivery--direct, indirect, and capital costs--are identified. This allows the community to recover total service costs through user fees if it chooses. Enterprise accounting also enables communities to reserve the "surplus" or net assets unrestricted generated by the operation of the enterprise rather than closing it out to the general fund at year-end. Services that may be treated as enterprises include, but are not limited to, water, sewer, hospital, and airport services. See DOR [IGR08-101](#)

**Free Cash** (Also Budgetary Fund Balance) – Remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's comptroller, accountant, or auditor. Important: free cash is not available for appropriation until certified by the Director of Accounts.

**General Obligation Bonds** – Bonds issued by a municipality for purposes allowed by statute that are backed by the full faith and credit of its taxing authority.

**Levy Limit** – A levy limit is one of two types of levy (tax) restrictions imposed by MGL Ch. 59 §21C (Proposition 2½). It states that the real and personal property taxes imposed by a city or town may only grow each year by 2½ percent of the prior year's levy limit, plus new growth and any overrides or exclusions. The levy limit can exceed the levy ceiling only if the community passes a capital expenditure exclusion, debt exclusion, or special exclusion. (See Levy Ceiling)

**Massachusetts School Building Authority (MSBA)** – Administers the state program that reimburses cities, towns, and regional school districts varying percentages of their

school construction costs depending on the wealth of the community or district and the category of reimbursement. Projects that received their first reimbursement payment prior to July 26, 2004 will continue to get annual state payments to offset the related annual debt service. Thereafter, cities, towns, and regional school districts will receive a lump sum amount representing the state's share of the eligible project costs... (See DOR [IGR06-101](#))

**New Growth** – The additional tax revenue generated by new construction, renovations and other increases in the property tax base during a calendar year. It does not include value increases caused by normal market forces or by revaluations. New growth is calculated by multiplying the assessed value associated with new construction, renovations and other increases by the prior year tax rate. The additional tax revenue is then incorporated into the calculation of the next year's levy limit. For example, new growth for FY07 is based on new construction, etc. that occurred between January and December 2005 (or July 2005 and June 2006 for accelerated new growth communities). In the fall of 2006, when new growth is being determined to set the FY07 levy limit, the FY06 tax rate is used in the calculation.

**Non-Recurring Revenue Source** – A one-time source of money available to a city or town. By its nature, a non-recurring revenue source cannot be relied upon in future years. Therefore, such funds should not be used for operating or other expenses that continue from year-to-year. (See Recurring Revenue Source)

**Principal** – The face amount of a bond, exclusive of accrued interest.

**Receipts Reserved for Appropriation** – Proceeds that are earmarked by law and placed in separate accounts for appropriation for particular purposes. For example, parking meter proceeds may be appropriated to offset certain expenses for parking meters and the regulation of parking and other traffic activities.

**Sale of Cemetery Lots Fund** – A fund established to account for proceeds of the sale of cemetery lots. The proceeds may only be appropriated to pay for the cost of the land, its care and improvement or the enlargement of the cemetery under provisions of MGL Ch. 114 §15.

**Sale of Real Estate Fund** – A fund established to account for the

proceeds of the sale of municipal real estate other than proceeds acquired through tax title foreclosure. MGL Ch. 44 §63 states that such proceeds shall be applied first to the retirement of debt on the property sold. In the absence of such debt, funds may generally be used for purposes for which the city or City is authorized to borrow for a period of five years or more

**Short-Term Debt** – Outstanding balance, at any given time, on amounts borrowed with a maturity date of 12 months or less.

**Special Exclusion** – For a few limited capital purposes, a community may exceed its levy limit or levy ceiling without voter approval. Presently, there are two special expenditure exclusions: 1) water and sewer project debt service costs which reduce the water and sewer rates by the same amount; and 2) a program to assist homeowners to repair or replace faulty septic systems, remove underground fuel storage tanks, or remove dangerous levels of lead paint to meet public health and safety code requirements. In the second special exclusion, homeowners repay the municipality for the cost plus interest apportioned over a period of time, not to exceed 20 years

**Special Revenue Fund** – Funds, established by statute only, containing revenues that are earmarked for and restricted to expenditures for specific purposes. Special revenue funds include receipts reserved for appropriation, revolving funds, grants from governmental entities, and gifts from private individuals or organizations.

**Stabilization Fund** – A fund designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose (MGL Ch. 40 §5B). Communities may establish one or more stabilization funds for different purposes and may appropriate into them in any year an amount not to exceed ten percent of the prior year's tax levy. The total of all stabilization fund balances shall not exceed ten percent of the community's equalized value, and any interest shall be added to and become a part of the funds. A two-thirds vote of City meeting or city council is required to establish, amend the purpose of, or appropriate money into or from the stabilization fund.

### ***ABOUT THE CENTER***

The Edward J. Collins, Jr. Center for Public Management in the McCormack Graduate School of Policy and Global Studies at the University of Massachusetts Boston was established in 2008 to improve the efficiency and effectiveness of all levels of government. The Center is funded by the Commonwealth and through fees charged for its services.



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